



Governance Gap

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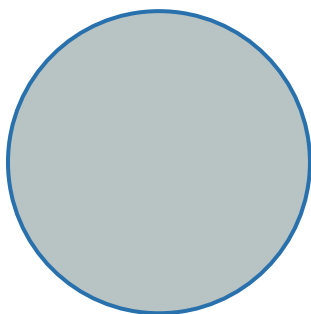
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Here's some background to our discussion of filling the Governance Gap:

It's difficult to assess how much influence Governance Gaps have on the way private organisations can contribute to sustainable development, and that makes it difficult to address.

On a global scale, companies, governments and organisations in civil society operate in an environment in which there are no set rules or laws from powerful authorities. There is only hybrid governance and soft laws. Without hard laws, governance relies on norms, morals, principles, guidelines and voluntary initiatives.

This global gap in governance creates space for organisations to adopt higher – or indeed lower – standards of sustainability, and that puts the creation of enough global public and common goods, like most of the SDGs, at stake. There are serious consequences for effective

diplomatic practices: how can truly sustainable and balanced relations between countries be established; how can the principles of sustainable diplomacy be applied in a world that face increasing conflict and rivalry between governance systems?

More recently, many organisations have tried to fill the global governance gap by multi-stakeholder initiatives, with participants from civil society, firms, and governments. In fact the SDG agenda can count as one of the most successful multi-stakeholder initiatives in recent history. The SDG agenda contains five principles to help organisations navigate in the right direction, and partnering is one of the main ones: People, Planet, Prosperity, Peace and Partnering.

But even within a single country, it's daunting to design and implement the right policy and governance instruments that enable change at the proper pace and with the intended effects. This results in a large number of challenges to do with governance, such as reporting standards. How can companies be obliged to fulfil their fiduciary duties even beyond their direct sphere of influence within all parts of their supply chain? Can voluntary reporting help here, or is mandatory reporting necessary? Can standards of governance move beyond due diligence and risk-related criteria?

Most countries are reporting their SDG efforts, but many still find it difficult to make the SDG agenda a strategic part of their national policies, meaning that there is now a serious gap between [rhetoric and reality](#) that hampers the possibilities of private organisations aligning with national policy agendas.

So what should organisations do?

While we are debating Governance Gaps, we should bear in mind that:

- The inability to deal with Governance Gaps is a part of a lack of trust in rules and regulations and a rise in populism faced by many countries. According to Edelman research, trust in governments and companies doing the right thing is at an all-time low. Gaps in trust cause decreased confidence in governments and their legitimacy as the primary responsible entity for formal institutions such as legislation and regulatory frameworks. The SDG agenda and several EU initiatives (Green Deal, [CSRD](#)) identify the importance of transparency and reporting on longer-term issues for overcoming part of the governance and trust gap. But who governs everything else? And how can the responsibility of unintended consequences be addressed? Can European initiatives such as Corporate Sustainability Due Diligence ([CSDDD](#)) that holds companies responsible for

unsustainable behaviour along their value chains create a level playing field for non-European actors too?

- The governance gap between the principles-based regulations for doing good and the rules-based regulations for avoiding doing harm remains large. The way this gap is addressed by international organisations (such as the International Labour Organization, OECD, UN and EU) defines the space where the SDG agenda can be really relevant. The SDG agenda – and its related principles-based investment strategies – are aimed at facilitating positive change that stimulates a race to the top rather than preventing a race to the bottom that rules-based initiatives aim at. The Governance Gap can be reduced if the more effective principles-based approaches are actioned by private organisations.
- It has been found that cross-sector and public-private partnering is not only geared towards creating *collaborative solutions* and collaborative advantages but can also establish and re-establish trust between governmental, business and civil society organisations. A global survey on external engagement by McKinsey in 2020 found that nearly 60 per cent of CEOs rank stakeholder engagement among their top three priorities. However, the survey also indicated vast gaps between intention and realisation, with only 7 per cent of respondents stating that their organisation regularly aligns the interests of stakeholders and their business.